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C O N F I D E N T I A L SECTION 01 OF 03 PRAGUE 000667

SENSITIVE

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DEPARTMENT FOR EUR/CE AND EUR/RUS

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TAGS: PREL EZ NATO RU

SUBJECT: CZECH REPUBLIC: DAS MERKEL DISCUSSES ENERGY
SECURITY AND RELATIONS WITH THE FORMER SOVIET UNION WITH
SENIOR CZECH OFFICIALS

REF: PRAGUE 623

Classified By: DCM Mary Thompson-Jones for reasons 1.4 (b) and (d).

11. (C) Summary: Deputy Assistant Secretary of State (DAS) David Merkel held day-long discussions October 10 in Prague on relations with Russia, energy security, relations with the countries of the former Soviet Union, and Russia's relations with NATO. He met with MFA Political Director Martin Povejsil, Vice Chair of the lower house's Foreign Affairs Committee Tomas Dub, the Deputy Director of the Prime Minister's Foreign Affairs Office, and other senior MFA officials. On Russia, DAS Merkel outlined U.S. policy and urged the Czechs to help make sure that Russia suffers consequences, for its actions in Georgia. On energy security, he encouraged them to work with the U.S., their EU partners, and the countries of Central Asia and the Caucuses to diversify sources of energy and export routes. He encouraged the Czechs and the EU to try to find ways to move Belarus slightly out of Russia's orbit and support Ukraine. He thanked the Czech government for their support of a tough line with Russia at NATO. Overall, the Czech officials appreciated the frank discussion, largely shared our views, and offered their support for our positions. End Summary.

Post Georgia Relations with Russia

2.(C) Merkel thanked the Czechs for supporting Georgia and encouraged strong transatlantic cooperation on dealing with Russia. He asked the Czechs to encourage Europe to deal with the "Russia that exists, not the Russia that we would like to see." He suggested that the EU must ensure that Russia faces some sort of consequences for its actions in Georgia. Povejsil said the Czechs support a tougher line on Russia, but feels hamstrung by many EU countries, desire to quickly resume normal relations. He outlined the Czech Government's support for ,legal type, sanctions against Russia business interests as the most realistic way to punish Russia for its actions in Georgia. For example, these legal type, sanctions could include penalizing firms that build or operate in South Ossetia or Abkhazia or do not operate within the EU as "traditional companies." Merkel and Povejsil supported delaying EU negotiations with Russia on the new Partnership and Cooperation Accord (PCA) until there are concrete results by the Russians to meet their commitments. Merkel encouraged the Deputy Director of the Prime Minister's Foreign Affairs office to rebuff any French move to quickly restart PCA negotiations with Russia.

Energy Security

3.(C) Czech MFA Director for Eastern European Affairs Daniel

Kostoval told Merkel that the Russians had reported that crude oil deliveries for October would be only 70 percent of the aggregate Czech request. Furthermore, the Czech Republic had not received any Russian crude oil deliveries for five days. (Note: Czech Special Energy Envoy Vaclav Bartuska told us on October 13 that partial Russia deliveries have now resumed, but continue to fluctuate and be sporadic.

Deliveries were down 40 percent and are sometimes sporadic. End Note.) Kostoval said that the Czechs expect oil deliveries to be 30% below contracted levels in July, 26% in August, and 20% in September. End Note.) According to Kostoval, the cumulative oil shortfalls are starting to hurt the international oil companies (IOCs) active in the Czech Republic. They are now forced to buy slightly more expensive oil delivered through the Ingolstadt-Kralupy-Litvinov (IKL) link of the TAL pipeline, while still having to pay for the undelivered Russian oil. (Note: Bartuska told us October 15 that the Czech Government does not know the terms of the commercial oil contracts and has not heard of any efforts by the OICs to reclaim their money. End Note). Kostoval said he believes the shortfalls are partially linked to a decline in Russian oil production but the decision on where the oil goes is political. He argued that Bashneft and Tatneft, the two companies supplying crude oil to the Czech Republic, have enough production to supply the Czech market, but are being told, to send their oil elsewhere.

4.(C) Kostoval reported that the Russians had finally responded to the Czechs acceptance of the Russian offer to negotiate the elimination of intermediaries in the oil trade.

Negotiations will start October 30 in Moscow in parallel with the annual Czech-Russian Economic and Trade Commission

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meeting. Russia Energy Minister Schmatko had told the Czechs that the supply problems could only be solved by a long-term oil contract, something none of the IOCs were interested in pursuing. Merkel noted there is no reason for long term contracts in oil and that it appeared the Russians were trying to do in oil what they have done in gas: use long term contracts to stifle diversification and ensure long-term dominance of the market.

5.(C) Kostoval reported that the Czechs were proposing an EU-Trans-Caspian Summit during their presidency. The Summit, which would be attended by Czech PM Topolanek, European Commission President Barroso and EU CFSP High Rep Solana, would ideally include energy producers Azerbaijan, Turkmenistan, Kazakhstan, and transit countries Georgia, Ukraine, and Turkey. At a minimum it would include only Azerbaijan and Turkmenistan, or even only Azerbaijan.

Kazakhstan had told the Czechs that they would not attend as they did not want to provoke Russia. The Czechs would also host an EU conference on interconnectivity of the electricity market in January and want to create an EU energy map to show what resources currently exist, likely future demand, and how that demand can be realistically met in the future. Merkel offered U.S. support for the Czech initiatives within the EU and encouraged the Czechs to use the oil disruptions to again demonstrate the need to diversify suppliers and routes.

Tomas Dub, the Vice Chair of the Lower House's Foreign Affairs Committee, and the Deputy Director of the Prime Minister's Foreign Affairs Office shared similar views on energy security with Merkel.

6.(C) Kostoval also said that the Czechs have told the Russians that the Czechs are interested in beginning negotiations to remove intermediaries in the oil trade. The Czechs met with Russia Energy Minister Schmatko on October 8 in Paris at the meeting of the EU-Russia Permanent Partnership Council. Both countries agreed to start negotiations on the elimination of intermediaries in the oil trade in parallel with the October 30-31 Moscow meeting of the Czech-Russian Economic Commission. Minister of Industry and Trade Riman, Kostoval, and Bartuska will all travel to Moscow for these meetings. Schmatko told the Czechs that the

supply problem, could only be solved with a long-term oil contract. Kostoval and the Czech MFA's Director of Security Policy Veronika Kuchynova-Smigolova commented that private Czech oil firms have no interest in concluding long-term contracts with Russia. Kuchynova-Smigolova and Kostoval speculated that other possible Russian motives for initiating talks with the Czechs could be that the Russians want to change intermediaries in favor of new Kremlin favorites or to seek ways to solve production shortfalls. Merkel noted that it appears that the Russians plan to utilize, as they did in European gas markets, long-term contracts to stifle the ability of many countries to diversify their energy sources. He encouraged the Czechs to resist these contracts.

Czech and EU Policies towards Moldova, Ukraine, and Belarus

7.(C) DAS Merkel thanked the Czechs for placing the EU's Eastern Neighborhood of Moldova, Ukraine, and Belarus on the agenda for their EU presidency. Povejsil commented that one important reason for putting the Eastern Neighborhood on the agenda for their presidency is that this helps the EU develop two policies towards the former Soviet Union. Right now, Germany and some other major EU countries see the Eastern neighborhood as just Russia. The Czechs believe that the EU must instead have two policies, one towards Russia and one towards the other countries of the former Soviet Union. Kuchynova-Smigolova said that the Czechs are currently undergoing a strategic "re-think" of their policies to support Moldova, Belarus, and Ukraine. Merkel suggested that we might think about re-evaluating our engagement with the Caucuses and Central Asia.

8.(C) Merkel encouraged the Czechs to focus on ways to try to move Belarus slightly out of Russia's orbit. He believed that we cannot expect Belarus to turn its back on its "big and difficult" neighbor, but we can hopefully give it more room to maneuver. Merkel pointed to positive developments like the recent release of political prisoners and allowing the U.S. to keep some Embassy staff in Minsk as a potential opportunity to improve relations. Kostoval agreed, but urged the U.S. to support a gradual easing of sanctions once

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several concrete steps occurred, including the sacking of the head of the Central Election Committee and the rescinding of the new media law. Kostoval hoped that the EU would loosen the visa ban now, but was pessimistic that any sanctions against those involved in the persecution of political prisoners or fraudulent elections would be in place after the EU's current visa ban expires in April 2009.

MAP and NATO Expansion

9.(C) Merkel reassured the Czechs that we strongly support giving membership action plan (MAP) to Georgia and the Ukraine, but is pessimistic about prospects for the upcoming December NATO Ministerial. Unlike the U.S., Kostoval and Merkel agreed that some countries like Germany see MAP as the last door before membership and not a process that might lead to full membership. He assessed that the current political turmoil in Ukraine reduced that country's chances. Georgia's chances are possibly higher than Ukraine's, but Georgian President Mikheil Saakashvili may have hurt his country's chances by walking into Russia's trap in Abkhazia and South Ossetia. He stressed that Europe and the U.S. need to demonstrate that both of these countries are not outside of Europe and do have a realistic chance of eventual NATO membership. Kuchynova-Smigolova agreed and underlined the Czech support for immediate MAP, but shared DAS Merkel's assessment that the prospect for either country at the December ministerial is not great.

10.(C) Comment: The Czechs were very appreciative of DAS Merkel's visit to Prague and the in-depth discussion on U.S. policy towards the former Soviet Union. Per reftel, the

current ODS-led government is clearly worried about the activities and intentions of a resurgent Russia in Europe. Merkel's statements highlighting long-held, bipartisan U.S. foreign policy goals in the region and assurances that there will not be a dramatic shift in our policy towards Russia and the former Soviet with a new administration helped soothe Czech concerns about having a new administration in Washington. No matter who sits in the White House, the Czechs will continue to look to the U.S. for leadership, guidance, and support in shaping their policies towards Russia. End Comment.

11.(U) DAS Merkel cleared this cable.
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